

MEMORANDUM FOR: FIELD CHIEF FINANCIAL OFFICERS

FROM: MICHAEL L. TELSON
CHIEF FINANCIAL OFFICER

SUBJECT: FY 1999 ENVIRONMENTAL LIABILITY ESTIMATES

As indicated in the Chief Financial Officer's (CFO) April 14, 1999, memorandum, "Environmental Liability Material Internal Control Weakness," the FY 1998 audit of the Department's financial statements resulted in a qualified opinion due to the existence of a material internal control weakness related to estimating the Department's environmental remediation liability. Whereas the April 14, 1999, memorandum focuses primarily on responding to the internal control weakness, this memorandum provides additional guidance on the development of the environmental liability estimates.

Specifically, this guidance covers the following major components to be reported in the FY 1999 Consolidated Financial Statements: (1) facilities/sites included in the Paths to Closure report; (2) facilities/sites included in the FY 1996 Baseline Environmental Management Report (BEMR) and excluded in the Paths to Closure report (pipeline facilities); and (3) active facilities. In addition, this policy emphasizes strengthening those areas that were raised by the Office of Inspector General (IG) during the FY 1998 financial statement audit. Accordingly, please develop your FY 1999 liability estimates using the following guidance in conjunction with the CFO's April 14, 1999, guidance which also addresses the IG concerns:

- Paths to Closure.

Field offices should update the environmental liability estimates in the accounting system to reflect the Project Baseline Summaries submitted to Headquarters for the 1999 Accelerating Cleanup: Paths to Closure. The liability estimates should reflect the activities in the Paths to Closure report with the exception of: costs associated with waste from ongoing/future operations (e.g., non-EM newly generated waste); program direction/national program costs (These costs will be consolidated and reported at the Headquarters level consistent with the Paths to Closure report.); high level waste and spent nuclear fuel fees; and costs that are reported elsewhere in the financial statements (e.g., postretirement benefits other than pensions). These updates should be included in the **August MARS submissions**.

The liability estimates must also be updated for subsequent Paths to Closure baseline life-cycle changes pursuant to the established change control process. In those situations where field offices do not have a formalized life-cycle planning estimate change control process to approve changes, the field office must establish and document their process for approving changes to the Paths to Closure estimates. Also, for events that have occurred before yearend that have not completed the change control approval process, a change to the estimate needs to be made if the event is expected to materially affect the estimates. These updates should be included in the **September MARS submissions**.

Field offices should analyze any baseline life-cycle cost estimate updates that occur or are in process after September 30, 1999, to determine if there is a need for (1) an adjustment to the estimate as a result of conditions that existed at September 30, 1999, (i.e., preexisting conditions) or (2) a footnote disclosure for conditions that arose after September 30, 1999. It is important to note that the yearend balance should reflect the Department's liability as of September 30, 1999, in FY 1999 constant dollars.

- Active/Pipeline Facilities.¹

Review the FY 1998 assumptions for active and BEMR (pipeline) facilities² and if more current information is known, the estimates must be revised based on the current information. In cases where the FY 1998 assumptions are still appropriate, the only changes to the estimates will be the adjustment to FY 1999 constant dollars. In this regard, the beginning balances should be multiplied by the inflation factor of 1.0174.³ This factor is based upon deflators listed in Table 1.3 of the Historical Tables of the FY 2000 Budget of the U.S. Government. Please note that sites developing their own estimates are not required to use the modeling process, Active Facility Data Collection Tool (Active Facilities Tool), described below, provided the site developed estimates are adequately documented and updated.

- ▶ Active Facilities: Changes to FY 1998 field data for active facilities should be made using the Active Facilities Tool which has been developed to replace the process of collecting data via the Department's File Transfer Protocol (FTP) System. The Active Facilities Tool is an internet web site and represents an improvement in the data collection phase of the facility cost estimation

¹ Detailed cost estimate reports will be generated using the data provided through the Active Facility Data Collection Tool. These reports will be posted on the web site with field office view access capabilities. The estimates contained in these reports should be used for recording adjustments, as appropriate, to the environmental liability estimates in the accounting system.

² It should be noted that where square footage is requested in the modeling process data collection, gross square footage rather than net square footage should be provided.

³ Estimates developed using the Active Facility Data Collection Tool will be adjusted by the inflation factor through the modeling process.

methodology used in prior years. It allows easier access to the facility information used to develop the active facilities estimate. A set of instructions at the Active Facilities Tool web site will guide you to making the appropriate changes to last year's data. Please note that the Active Facilities Tool contains information collected in prior years using the FTP as well as information from the Facilities Information Management System (FIMS) as of May 21, 1999. Therefore, you will need to review the FY 1999 FIMS database and update your Active Facilities Tool to reflect any changes to the size data for this snapshot of facilities subsequent to this date. All updates to the information contained in the Active Facilities Tool must be completed by **August 27, 1999**, to allow enough time to complete the modeling process by yearend.

- ▶ Pipeline Facilities: In previous years the BEMR has been used as the basis for most of the pipeline facilities liability estimates. The BEMR estimates were revised for financial statement purposes each year for inflation and, if appropriate, for changes in other assumptions. Starting in FY 1999 the Department will use the active facilities modeling process to develop liability estimates for pipeline facilities.

To enable the modeling of pipeline facility costs, offices which submitted pipeline costs in FY 1998 need to review and verify the information contained on the Active Facilities Tool, provide any necessary changes to the data, and provide any additional information as requested. It should be noted that the requirements for recording the pipeline facilities liability estimates in the accounting system will remain unchanged this year; therefore, guidance provided by the Office of Financial Control and Reporting should continue to be followed with regard to making the appropriate accounting entries. All updates to the information contained in the Active Facilities Tool must be completed by **August 27, 1999**, to allow enough time to complete the modeling process by yearend.

- FY 1999 changes to the above three components will be updated in the accounting system by the following major categories:
 - ▶ Constant dollar adjustment for FY 1999
 - ▶ Life-cycle cost changes
 - ▶ FY 1999 operating and capital costs

The Office of Financial Control and Reporting issued guidance last year for recording adjustments to the environmental liability estimates in the accounting system. That guidance provides unique Budget and Reporting Codes to distinguish between changes in the estimates due to inflation, life-cycle cost adjustments, and current year costs incurred.

- Ensure that there is sufficient documentation to support the environmental liability estimates including approaches used for removing duplicate costs, any assertion of immateriality with regard to updating the estimates, contingencies, other necessary adjustments, etc. Also, ensure that sufficient documentation is available for audit inspection to support the assertion that all contaminated facilities are included in the estimates. If your office is unable to perform a facility by facility reconciliation due to the Paths to Closure methodology of developing estimates by groups or “clusters,” you should use and document other alternatives that can support your assertion. Offices experiencing problems meeting this requirement should let my office know as soon as possible.

If you should have any questions, please contact Robert Myers or Michael Lynch of my staff on (202) 586-8609 or (202) 586-6894, respectively.